

Apple's Next "iPhone Moment"?

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Editor's Note:

On February 10, Benzinga Research analyst Chris Capre made a bold call about **Apple Inc.** (NasdaqGS:AAPL). Though it was already a \$3 trillion company, Chris made the case for Apple's path to 5x gains from there. In the six months since, AAPL stock has risen from \$189/share to \$227/share—a 20% rise. Below, you'll find an update on Apple's global expansion efforts and the success of its Vision Pro rollout in moving the needle for the world's biggest company.

Dear Benzinga Member,

The numbers are in, and they do all the talking...

Last quarter, **Apple Inc.** (NasdaqGS:AAPL) reported not only record earnings per share, but also set revenue records in more than a dozen countries and regions.

The company also set an all-time revenue record in its Services segment, with \$23.8 billion in revenue marking a 14% rise year-over-year.

Revenue records were smashed in two dozen companies... and the company's services segment set an all-time record of \$23.1 billion, up 11% year-over-year.

Meanwhile, the recently launched iPhone 15 continues to be very popular with customers, according to the firm 451 Research, which measured customer satisfaction at 99% in the U.S.



Source: *Benzinga Pro*

But the biggest catalyst for Apple wasn't reflected in this triumphant earnings report... because it launched the day after Apple reported Q4 earnings last week.

Nonetheless, it's already booked 200,000 orders, despite retailing at \$3,499—and over the years, I expect its launch last week to go down in history as another “iPhone moment” for Apple.

Apple's New “iPhone Moment” Is Here

Chances are, you've heard all about Apple's Vision Pro.

It's the most advanced personal electronics device in history, so much so that CEO Tim Cook heralded it as “a historic day as we enter the era of spatial computing.”



Source: Company presentation

Apple’s Vision Pro uses visionOS—Apple’s spatial operating system—to merge a virtual world with reality. Simply put, it brings images on screen to life by making them seem physically in your space. Users navigate the system through hand movements, eye movements, and voice commands.

Since its February 2 release, Apple has already sold over 200,000 Vision Pro headsets, either through pre-orders or in-store sales. Overseas, it’s retailing for as much as \$9,000, as black-market vendors meet demand until Apple can comply with regulations in Europe and elsewhere.

Is it another iPhone moment?

UBS analyst David Vogt was impressed after a demo... in a note to clients, he wrote:

“While the demo only lasted 25-30 minutes and was highly scripted/controlled by Apple, the capabilities and technology powered by Apple’s M2 chip and the new R1 chip that processes data from five sensors and 12 cameras to provide head, eye, and hand tracking, as well as 3D mapping of one’s surroundings were impressive, particularly the spatial audio and immersive 3D video.”

Meanwhile, Erik Woodring, analyst at Morgan Stanley, likens Vision Pro to being “effectively a free call option on Apple innovation.”

Meaning: If Vision Pro’s impact surprises on the upside, investors today could be rewarded by multiples of 2, 3, 4, or more.

So, is this another “iPhone moment” for Apple?

Some analysts forecast hundreds of thousands of sales in the 2024 fiscal year, which would bring in over \$2 billion in revenue for Apple... nothing to sneeze at, but an afterthought compared to the \$46 billion in iPhone sales from last quarter alone.

But keep in mind... in 2007, Apple sold only 1.4 million iPhones.

By 2022, however, that number reached 232 million.

As Tim Cook detailed in Apple's most recent earnings report, more than half of Fortune 500 companies have bought Vision Pro units and are exploring ways to innovate with them that weren't possible before.

Apple is also working on a cheaper version of the Vision Pro, which could launch as early as next year. The second generation may also have a processor upgrade, with new and faster capabilities to match.

This would track Apple's history of continuously making its revolutionary products not only cheaper, but more sophisticated and powerful over time.

After all, the iPhone 1 retailed at \$499 on its June 2007 launch.

Today you can buy the iPhone 14 for \$699—cheaper than the iPhone 1 in 2007, after accounting for inflation, and with much greater capabilities.

Then there's the enterprise value to consider... Vision Pro, when it goes mainstream through a combination of higher capabilities and lower prices, will unlock new possibilities and experiences in medicine, education, and more. Just as the Apple Watch marked Apple's foray into the \$808 billion health care industry, Vision Pro could enable remote doctor's visits, surgeries, and professional diagnoses from thousands of miles away.

We think investors should start to contemplate a world where a new Apple product is bringing in tens or even hundreds of billions of dollars a year in revenue—and perhaps eclipsing the iPhone in Apple's vaunted ecosphere.

But this isn't the only reason we're bullish on Apple...

Because while the iPhone is one of the most lucrative consumer products of all time, Apple's Services segment may soon surpass that. Apple Services—think Apple Music, streaming, Apple TV, Apple Cloud, and of course the App Store—have taken the company beyond hardware while giving it yet another revenue stream that even eclipses that of some major corporations.

For instance, in 2022 Apple Services brought in \$79.4 billion, compared to \$31.6 billion for all of Netflix's operations. It's also generated more revenue than Intel, Nike, Boeing or American Airlines. It's more than *triple* the \$23.18 billion in revenue McDonald's generated worldwide in 2022.

Apple's services segment could be a similar opportunity to that of AWS for Amazon. Like Amazon's cloud-computing segment, Apple services keeps growing its margins, which reached 72% in fiscal 2022.

Apple Services also hit a record in revenue last quarter, clocking in at \$20.9 billion. It's achieved an all-time revenue record in Greater China, with March quarter records in the Americas, Europe, and the rest of Asia Pacific.

Forbes expects Apple Services to eclipse its smartphone segment in just a few years... which, apart from generating tens of billions more dollars each year, would be monumental for another reason. Apple's gross margin for the services segment was 71% in Q2/2023, compared to Apple's overall gross margin of 44.3%. That means Apple is growing its most lucrative segment exponentially.

Why is the service segment such a powerful tailwind for Apple?

Remember, Apple has an installed base of over 2 billion devices around the world. That's a great foundation for expanding the vaunted "Apple Ecosystem." This cash cow has given Apple \$975 million in paid subscriptions across its Services platform, a \$150 million increase in 12 months and double the number of paid subscriptions Apple had just three years ago.

Overall, Apple's App Store Ecosystem facilitated \$1.1 *trillion* in revenue in 2022. Of course, Apple doesn't get a commission on all of the commerce its App Store facilitates—just on app purchases, in-app purchases, and in-app subscriptions. But its in-app advertising swelled to \$109 billion in 2022, more than double 2019's \$45 billion haul.

Overall, the Ecosystem grew by 29% in 2022...and in Q4, the App Store, Apple Music, iCloud, and payment services all broke revenue records.

It looks highly likely that Apple Services will have more than doubled in just a few years, providing an enormous boost to earnings and ultimately share price. This is the main story around Apple that too many analysts, fixated on its traditional segments, are missing.

Of course, as powerful as a Services segment generating tens of billions of dollars more each quarter would be, it still needs to be said...

The Rest of Apple's Products Segment Is No Slouch, Either

iPhone sales may have hit \$46 billion for the quarter. But the iPad and Mac brought in \$5.6 billion and \$7.5 billion additionally.

Those numbers were seen as somewhere between respectable and mediocre, given Apple's highly successful M1 chip rollout for the Mac lineup in 2022, and the challenges to product sales from foreign exchange headwinds and other macroeconomic challenges.

But these numbers are highly likely to grow at a prodigious clip over the years, too.

No matter where they buy them in the world, people love their Apple devices...

The latest survey of US consumers, from 451 Research, put customer satisfaction for the iPhone 14 at 99%. For the Mac, customer satisfaction was 96%. As of May 2023, Apple held its top spot among smartphone companies worldwide with customer satisfaction at 82%. That was up from 81% in 2019.

Brand satisfaction, a slightly different metric, came in at 92% according to Statista's Global Consumer Survey. That put it ahead of Google, Samsung, and every other competitor.

And while Apple may have sold its billionth smartphone back in 2016, it can still sell its hardware to billions more... the iPhone 13 was the fastest-selling smartphone in China in 2022, rising from the third spot in 2021. By 2027, 1.2 billion Chinese are expected to enter the middle class. In India—where, incredible, Apple just opened its first store—hundreds of millions of aspiring members of the middle class see the iPhone as a status symbol.

For now, the top 10% income bracket in India is \$304 a month, or less than half what an iPhone costs. But wages are rising over 10% a year in India, and in 10 years the economic picture will look very different. Hundreds of millions of Apple devices will almost surely be sold next decade in that subcontinent alone.

And that's all before we get to...

Tim Cook's \$110 Billion Catalyst for Apple Shares

Some Apple bears cite the Law of Large Numbers to close the door on a company the size of Apple returning 1,000% from here.

They're likely right in saying Apple won't be a \$29 trillion company in 2033.

But to return 1,000% for investors today, *Apple doesn't have to grow very much at all.*

Last May, Tim Cook announced on an earnings call that the Board has approved \$110 billion for share buybacks. It's a move that Warren Buffett, one of Apple's biggest shareholders, is surely applauding.

After all, buybacks can light a fire under share prices, especially when they're retiring close to \$100 billion worth of shares, as this repurchase will. This \$110 billion buyback is enough to retire 4.9 million shares of stock. Just think back to 2018, when Apple's \$100 billion buyback program was credited with helping the stock to surge 25% in the months that followed.

For a company that made \$170.7 billion in profits last year, these gargantuan buybacks are easily affordable... and all by themselves, they could power the stock to gains in the hundreds of percent, without the company growing earnings by a dime.

Finally, there's Apple's dividend to consider.

Apple hiked its dividend last May for the 12th year in a row, from \$0.24/share to \$0.25/share. It pays just a 0.4% dividend yield, which isn't a game-changer for investors.

But those payouts have risen 160% since 2012. Apple pays out just 14.7% of its profits back to shareholders in dividends—so it could easily double payouts overnight without going into debt.

With 12 years of annual dividend hikes under its belt, Cook and the rest of management would clearly like to see Apple become a Dividend Aristocrat—the rare company that has raised payouts for 25 years or more.

The dividend isn't the main reason for buying the stock. But it certainly won't hurt—and in 10 years' time, it could be a very lucrative income stream for investors who get in today.

We see Apple as a singularly unique investment opportunity today. It's a company that's deeply entrenched, and sparing no expense as it pursues new paths to glory and markets totaling billions of consumers.

And while every investment carries risk, it's very, very difficult to imagine Apple imploding—and even if it stumbles on the innovation front for years, the company still has a path to 5x returns thanks to share buybacks and a customer base numbering hundreds of millions of people who will still be buying Apple products for years to come.

Regards,

The *Benzinga Research* Team

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